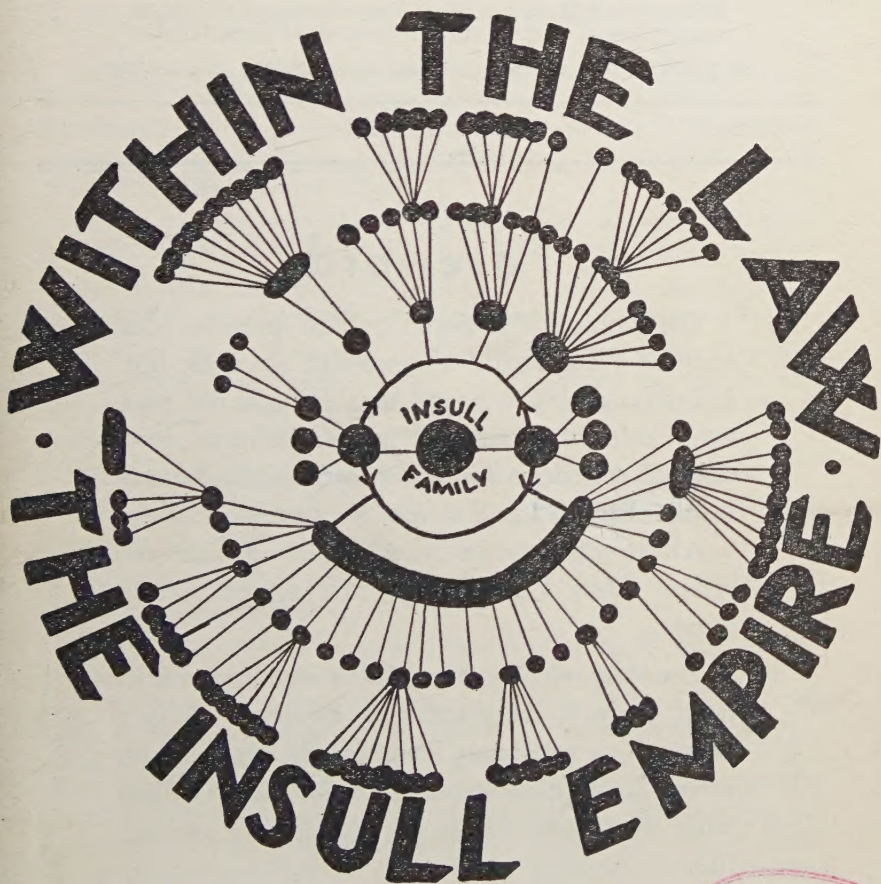
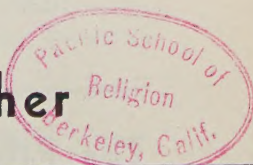


SOCIAL ACTION



By Harold O. Hatcher



April 1, 1935 » » » » Ten Cents

SOCIAL ACTION

Published twice a month, except July and August, for the *Council for Social Action*, 287 Fourth Avenue, New York, N. Y., by *The Pilgrim Press*, 14 Beacon St., Boston, Mass.

Subscription \$1.00 per year. Ten cents each for single copies; seven cents each for twelve or more copies.

Application for entry as second-class matter is pending.

Volume I

APRIL 1, 1935

Number 2

Foreword

The Council for Social Action presents this study as a case record of American economic life. It has no desire to hound that pathetic old man whose tale is here told. It has no desire to prove that all American business is typified by Samuel Insull. Samuel Insull simply gives evidence of the wreckage which can be caused under our economic system when a man plays that system to the utmost.

The story which is here told is based upon first-hand study of the documents involved. It is a story which will repay study by all who wish to arrive at an understanding of the forces which work themselves out in our developing national life.

HUBERT C. HERRING

The Pilgrim Press, Boston and Chicago

WITHIN THE LAW

Corporations and People

Suppose that the next time you turned on your electric light, nothing were to happen. You discover that the current is off throughout the building. Outside also, the streets and houses are in darkness. In fact, your entire community is suddenly without electricity.

Street cars stop; likewise the elevator. Stores close their doors. Factory wheels stop; the printing press is stilled.

As though this were not enough, telephone service fails. There is no gas in the kitchen and perhaps not even water.

Shortly the community is filled with fear and confusion. Crime and destruction occur. The effects spread to the surrounding countryside. All understand why the First Command was: "Let there be Light."

"But why suppose such a happening as that?" you ask.

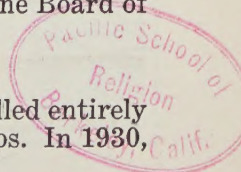
For two reasons: To show how modern life hangs by the thread of its public utilities, and . . .

"Surely, but they could not all break down or shut down at once," says another.

There's the second reason. The rise of large utility companies in recent years makes it easy for a few persons in key positions to injure or benefit the lives of thousands. In 1927 already, the American Telephone and Telegraph Company owned and operated 14 million telephones—one for every eight persons in the United States. Its assets are greater than the wealth of 21 of our states. The number of its employes and their dependents in 1930 was greater than the combined population of Maine, Vermont, South Dakota and Nevada. An empire in itself, controlled by one Board of Directors!

The A. T. & T., you say, is an exception.

Then take the electric light industry. It is handled entirely by corporations, the most of it by ten large groups. In 1930,



George H. Howard of New York was a Director of four of these groups. His companies had gross income of approximately \$500,000,000 that year—enough to pay for a pair of shoes for every person in the United States. The accompanying chart pictures this concentration.

But is the same true of non-utility companies?

Professors Berle and Means of Columbia University made a study of corporations. Here is what they found: In 1929, 200 corporations (including 44 utility companies) controlled 22% of the total wealth of the country and 49% of the industrial wealth. All corporations owned two-thirds of our industrial wealth.

Among these 200 corporations were:

Aluminum Co. of America	Paramount Publix Corp.
Armour & Co.	Pennsylvania R. Co.
Borden Co.	Sears, Roebuck & Co.
General Motors Corp.	Standard Oil Co.
Great Atlantic & Pacific Tea Co.	United States Steel Corp.
International Harvester Co.	Woolworth & Co.

10 GROUPS

63%

WHO GETS THE NATION'S

ELECTRIC DOLLAR?

15 GROUPS

25%

1000 INDEPENDENT
COMPANIES

7%

2000 MUNICIPAL
COMPANIES

5%

And who owns the corporations?

Their estimate is that approximately 5,000,000 different people in the United States are stockholders—in other words, 4% of the population.

Where do corporation earnings go?

Federal tax reports indicate that 74% of dividends go to 600,000 people receiving incomes of \$5,000 a year and over. This means that $\frac{1}{2}\%$ of the people get three-fourths of the earnings and $3\frac{1}{2}\%$ —the small stockholders—get the other one-fourth.

Who controls these corporations?

Approximately 2,000 individuals (the Directors of the 200 companies) are in a position to direct and control half of industry.

What else do Berle and Means say?

“The economic power in the hands of the few persons who control a giant corporation is a tremendous force which can harm or benefit a multitude of individuals, bring ruin to one community and prosperity to another. The organizations which they control have passed far beyond the realm of private enterprise—they have become more nearly social institutions.”

It sounds interesting, but what does it mean? If the corporations are not just offices in New York and other cities, if their arms reach down to Smithville, to Glenwood and to Farmerton, if their influence for good or ill on the daily life of every citizen makes them institutions of social importance—then how can we answer the important question: Will their concentrated power be used for good or ill?

To understand all corporations would be impossible. Let's agree on a sample. Then we can take it apart, study the pieces, put it together, see how it works. Let's take one that supplies our daily needs; for example, the Insull utilities.

But aren't they in receivership?

A small number of them went into receivership in 1932. But so did 105 utility companies go into receivership from

1929 to 1932. Yet many of them, including nearly all of the Insull companies, are still operating.

The newspapers said officials of the Insull companies used bad judgment and should be punished.

That is what they said. Yet those who understand corporations and utilities say that what the Insull companies have done, most other utility companies have done, in varying degrees. Besides, lengthy trials of Insull officials recently, in both County and Federal courts, resulted in the verdict, "Not Guilty." The facts which we present were laid before the courts at the request of small stockholders. They were interpreted as "within the law."

• •

The Rise of the Insull Empire

It would take only 40 years at the 1909-29 rates for practically all industrial activity to be absorbed by America's 200 giant corporations.—Berle and Means.

The story of the rise of this Insull empire cannot be separated from the life of him whose name it bears—Samuel Insull.

He was born in London in 1857, the son of a prominent temperance leader. He attended private elementary schools, particularly one in connection with Oxford University. At 14 he went to work for a firm of auctioneers at \$1.25 per week. In the evenings he studied shorthand and penmanship. Anxious to master these arts he took down the sermons of the famous Charles Spurgeon and also speeches of Gladstone.

At 18 in answer to a blind ad in the newspaper he became secretary to Thomas A. Edison's London representative. The salary was \$7.50 per week. He helped introduce the telephone in London, and had the opportunity to operate its first exchange. Interest in his work and his ability brought him a call after four years to come to America as private secretary to Mr. Edison.

Incandescent lighting had just been developed in Mr. Edison's laboratory. He was anxious to get it on the market.

Young Insull's first night in America was spent in conference with Mr. Edison. Subject: How to raise the necessary finances. This subject, as we shall see later, was to become his chief concern throughout the next fifty years.

The Edison Machine Works and the Edison Illuminating Company were formed. Samuel Insull, as Edison's representative, was an officer of each. The Machine Works were later moved to Schenectady with Mr. Insull in charge. "Whatever you do, Sam," said Mr. Edison, "either make a brilliant success of it or a brilliant failure. Do something!"

In 1892 mergers took place resulting in the formation of the General Electric Company. The 33 year old Insull, who had 6,000 men working under him and was drawing \$30,000 a year, was disappointed that Mr. Edison let him be only second vice president of the new company. He resigned immediately. This brought to a close 11 years during which he was the secretary, treasurer, adviser and friend of the great inventor.

Mr. Insull previously had done business with Edison's Chicago company through its special representative, Robert Todd Lincoln—son of Abraham Lincoln. The Chicago company had written Mr. Insull a few months earlier to recommend someone for its presidency. After turning in his resignation, he wrote the Chicago company "to consider Samuel Insull an applicant." He got the job and named his own salary, \$12,000. He did not bring along his capable private secretary who had asked \$5 or \$10 more per week than Mr. Insull had offered him.

The Chicago Edison Company was small, lighting only the downtown district. The ambitious executive turned his thoughts at once to possibilities for expansion. Within a year his company "took over" its principal competitor, a company larger than his own. Within five years it "bought up" 11 small companies.

How was this done? By issuing stocks or bonds and using them or the proceeds from them to make the purchases. "In 1896 the only way I saved the company," said Mr. Insull, "was by the sale of \$1,200,000 of bonds in London"—his home town.

At the turn of the century he took time out to be president of the National Electric Light Association, to marry a talented actress, and to acquire an heir to the rising empire.

During a visit to England in 1900 Mr. Insull saw a small *steam* turbine in operation. It occurred to him that a large one could greatly reduce operating costs and—in his words—“lay the basis for capturing the power business in Chicago.” He tried it. It worked.

His company cut rates, voluntarily. The remaining 15 independent companies were “absorbed.” And in 1907 the old Chicago Edison Company, which was one of many in 1892, emerged as the Commonwealth Edison Company with a monopoly in Chicago and a franchise until 1947. During the 15 years it had grown from a one million dollar company to a 50 million dollar company.

With the light and power industry of Chicago in the vest pocket, attention was turned to the surrounding territory.

Mr. Insull’s good reputation was spreading. He followed it with a few well-placed investments in northern Illinois and southern Indiana. In 1911 there appeared the Public Service Company of Northern Illinois, under Insull management. In 1912 five Indiana properties were put together as the Middle West Utilities Company. Three persons were present when plans were outlined for its organization: Samuel Insull, his 12 year old son, also named Samuel; and Martin J. Insull.

Martin was Samuel’s younger brother who had come to America in 1889 when Samuel wrote him that “opportunities are greater here.” He took an engineering course at Cornell and later went to work for his brother. He was made vice president of the Middle West Utilities Company when it was formed.

In 1913 Samuel Insull was made chairman of the Peoples Gas, Light and Coke Company which supplied gas for entire Chicago. Three years later an electric railroad running from Chicago to Milwaukee came under Insull control. The United States then entered the World War which prevented the formation of other Insull companies for six years.

Many new members were added to the Insull family of companies from 1922 to 1929. Then another "war" overtook him.

The companies formed during this period were a different kind from the earlier ones. They dealt not in utilities but in the stocks and bonds of utilities. Perhaps we have the reason for this change in the following very frank statement. It was made by Samuel Insull in 1922 to some of his employees:

"I wish I could be in your position, at your age, with the experience I have at my age. I am afraid, if that were possible, some of the politicians would be looking pretty sharply after me, as they would come to the conclusion that a few thousand square miles of territory would be but a flea-bite to what I might successfully hope to accomplish, in combining various elements of the public utility business. I would be more inclined to look after interstate operations than just operations in a few of the counties."

• •

The Extent of the Insull Empire

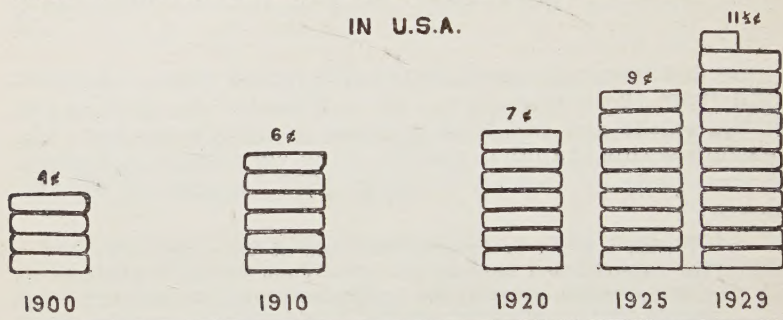
The rise of the corporation has worked a revolution in respect to owners, workers, consumers and the state. . . This system bids fair to be as all-embracing as was the feudal system in its time.
—Berle and Means.

In 1930, 3,900 utility companies were selling light to the American people. Over 200 of these companies, including the larger ones, were under Insull management. The Insull group was not the largest of the utility groups, but it was increasing its share of that business.

In 1900 the Insull group was selling electricity in a small section of Chicago. In 1930 it was selling in every state east of the Rockies except five, and in the Dominion of Canada and the Republic of Mexico. It had won practically a monopoly in New Hampshire and Illinois and a controlling position in other states.

It would be interesting to include a list of the communities supplied by the Group. Each of us could then see whether our own home town is on the roll. That cannot be done here

INSULL'S SHARE OF EACH DOLLAR SPENT FOR ELECTRICITY
IN U.S.A.



—there would be almost as many names as there are words in this pamphlet. In 1931 there were 6,000 of these communities—with an average population of 2,000.

Were these communities dependent upon the Insull group only for electricity?

No. Many had to use its cars and trains to get to work each day. This business in 1930 would amount to three rides for each person in the United States. Many got their gas from it also. The branch of the business which stood the depression best was water! The Insull companies assumed the responsibility for supplying 205 communities with water. Annual revenue from this source amounts to some \$3,900,000.

The Insull Group is not simply properties. It is men and women also—employees, stockholders and customers. The empire's army of employees is more than one-half as large as the United States army. If all the employees should line up at the President's office in Chicago, a solid line would extend down into Indiana. Or if the line formed in the other direction, the person at the end would be up in Wisconsin. These 72,000 employees and their dependents would make a large city. The vast majority of them could be discharged without cause or notice.

A half million people have money invested in the Insull companies. Their average investment in 1930 was \$5,040—the price of a modest home. Let us see how fast they were

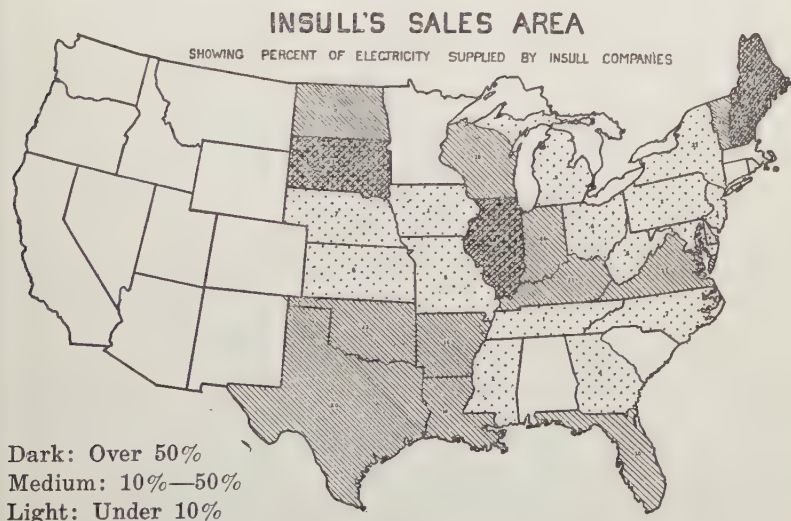
investing new capital in these companies from 1922 to 1930. We will suppose the shares were paid for in silver—something we are all acquainted with. In that case, it would have required a fleet of ten trucks hauling over two tons of money each, per day, throughout the eight years. The total was \$1,552,000,000. Samuel Insull once said, "The difficulty is not to raise money but to discover the best means of raising it."

How many customers are 4,500,000?

If the Insull companies collected from only one of its customers every minute during business hours, it would require 35 years to make the round. Since they prefer to collect monthly, they must average seven every second throughout the month. While the number of electric and gas customers in the United States increased 8-fold (1900-29), the number of Insull customers increased 280-fold.

It begins to appear that this group of utility companies is a vast empire. To millions of Americans it is job-giver, or money-borrower, or only source of light, heat or even water.

How is the empire controlled?



The Control of the Empire

A society in which production is governed by blind economic forces is being replaced by one in which production is carried on under the ultimate control of a handful of individuals . . . Pyramiding has been extensively employed in building up most of the great public utility systems.—Berle and Means.

When Samuel Insull went to Chicago in 1892, one of the first things he did was to borrow \$250,000 from Marshall Field. He used the money to buy stock in the company of which he was president. The stock was left with Mr. Field as security for the loan.

Why did he make this loan? It was not to increase his ownership but to get the votes which the stock carried. *Samuel Insull knew that the important thing today is not simply to own, but also to control—a rare combination in corporations.*

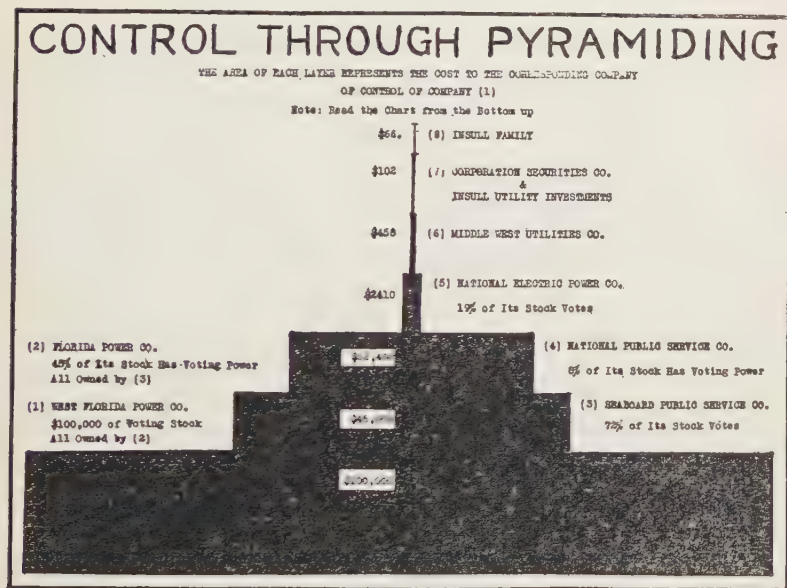
But how can one person or a few persons control a big company or even a hundred companies?

One of the most usual ways is by "pyramiding." This means owning a majority of the voting stock of one company which in turn owns a majority of the voting stock of a second company and so on to the third, fourth or tenth company. The accompanying chart is an example involving eight companies. It shows how the Insull family with an investment of \$66.68 controlled the West Florida Power Co. capitalized at \$100,000.00.

In the case of the North State Beach Development Company Insull's \$1.00 controls \$3,378.00 belonging to other investors.

We have shown how the Insulls controlled one company with less than \$100. How many such investments did they have?

The market value of their stock in the two top companies in 1930 amounted to approximately \$100,000,000. These stocks cost them \$966,953 in cash as is pointed out elsewhere. Thus one million dollars controlled a 2,500 million

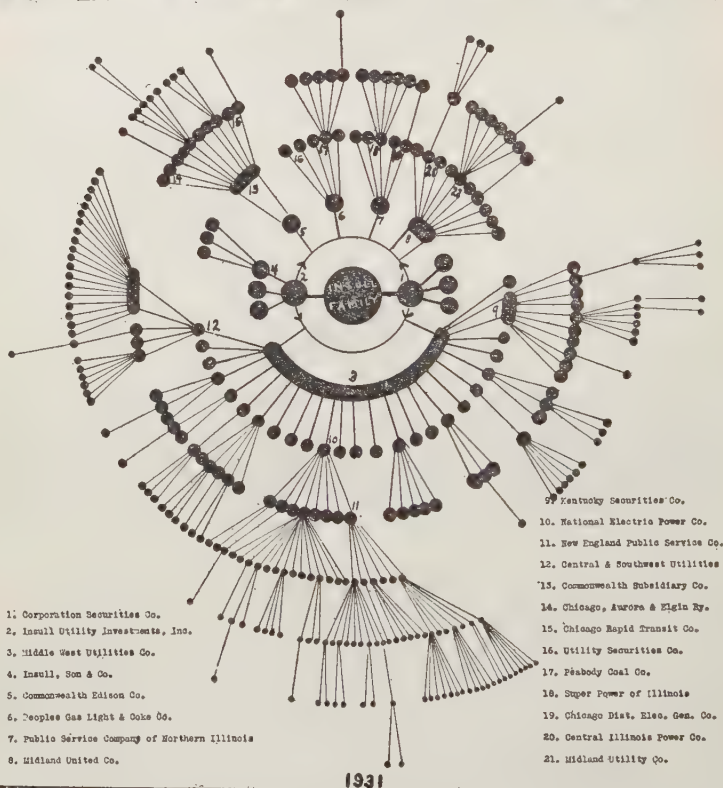


dollar empire. Through pyramiding, each Insull dollar controlled 2,500 of other peoples dollars.

The number of companies in the empire changed constantly. The most complete list available for 1930 named 95 holding and investment companies and 255 operating companies, a total of 350. The accompanying chart shows the important companies of the empire. They are arranged as concentric circles corresponding to the successive steps in the pyramid. The lines show how all were controlled by the Insull family.

Samuel Insull did not stop when he got voting control of a company, even if it was 100% control. He usually became Chairman of the Board of Directors. Samuel Insull, Jr. would be made vice-chairman. Some other important position would go to Martin Insull. Each of these three were on the Boards of more than 50 of the important companies. A half-dozen friends of the Insulls were placed on the Boards of five or more "top" companies.

INSULL EMPIRE AND ITS CONTROL



Further control was gained by having the charters grant the company and its Directors very broad powers. Notice for example the "Object" of Corporation Securities Company as stated in its charter:

"The object for which it is formed is to buy, sell, acquire, take, own, hold, transfer, lease, purchase, mortgage, encumber, convey; bonds, mortgages, notes, debentures, stocks; and property of every kind and description . . . and all other powers granted by law."

Business policies of Mr. Insull's companies were outlined in weekly President's councils 'to which it was an honor to be invited.' "That really was the way the business was run," stated Samuel Insull. "There was no vote. The man at the head was the autocrat."

Many who dealt with Mr. Insull agreed that he was a man of iron will and an iron fist. The vice president of the First National Bank of Chicago, speaking of his experience with Samuel Insull, said, "He is the most dominating man I ever knew."

After Mr. Insull gained control of the two billion dollar empire, he erected a monument to his greatness. It was the Civic Opera Building, rising forty stories high in the heart of Chicago. On the roof of this skyscraper, a luxurious six-room pent-house was built. There, in what came to be called "Mr. Insull's Cottage," lived the man from whom ten million Americans bought their light, gas, transportation or water. While sitting with a group of friends he once remarked, "You know, I can do anything I want to in this state now."

In the Insull companies, as in 194 of the 200 largest corporations, the public permitted a vast power to be concentrated in the hands of a very few. Was this power used in the public's interest?

• •

The Use of Power

The stockholder in the modern corporation has surrendered a set of definite rights for a set of indefinite expectations . . . The value of an individual's wealth is coming to depend on forces entirely outside himself and his own efforts . . . It is subject to the vagaries and manipulations characteristic of the market place.—Berle and Means.

From office boy in England to utility magnate in America in 50 years—what better illustration could be found of self-made success. Is this record not abundant proof that he of whom we write is a great man? Did Thomas A. Edison not speak from long observation and intimate knowledge when

he said, "Insull is one of the greatest business men in the United States and as tireless as the tides"?

Samuel Insull worked in a new industry where continual improvement and expansion were necessary. He has never been accused of neglecting either. At times the Insull companies voluntarily lowered utility rates, not merely to increase profits but to increase consumption. The companies have been commended for efficient operation. They voluntarily extended certain benefits to the employees.

In speaking before groups of business men, Mr. Insull often urged them to give more thought to community interests. In his own community he built for himself the reputation of being a public-spirited citizen and a generous giver to worthy causes.

Why have many people ceased to think of Mr. Insull in these favorable terms?

By taking certain business risks in the early years, Mr. Insull brought speedy success to his company and indirectly to himself. Early achievements sharpened the desire for greater ones. At first greater risks brought greater gains. But finally they became so great that they brought instead heavy losses. As a result the government opened the company's books to the public in two lawsuits. Thus we are privileged to know more about these companies than about others whose records have not been forced open.

Before describing certain practices of the management which were of questionable wisdom, a word should be said in behalf of the persons.

Success for them, as for other business leaders, lay in increasing their business, enlarging their companies. The quickest way to do this was to raise new capital—by the sale of securities. But the public hesitates to buy securities unless they pay good dividends. In order to pay dividends the companies must have a net income. Thus business success, according to this standard, depends on net income. It will be noticed that it was the desperate effort to maintain this income—the price of expansion and success—that speeded-up the questionable practices.

A TRANSACTION IN 1912

The Middle West Utilities Company was incorporated May 3, 1912, with Samuel Insull as president and Martin Insull as vice president. The minutes of a meeting of the Directors three days later record the following transaction: Samuel Insull obtained \$4,000,000 worth of the company's preferred stock and \$6,000,000 worth of its common stock, or a total of \$10,000,000 worth. In payment for this he transferred to the company \$3,270,000 in cash, \$109,261 in accounts receivable, and \$383,879 of securities in eleven southern Indiana properties, or a total of \$3,763,140. The remainder of the \$10,000,000, or \$6,236,860, which the company did not get, was recorded on its books as "Vendors Contract Account." It was carried there until December 31, 1925. At that time the company raised the valuation of its investments \$8,890,078 and wrote the "Vendors Contract Account" off its books.

Mr. Insull's position was that the company was a speculative venture at this time and that he was entitled to liberal treatment in return for placing his cash and securities in it. Such liberal treatment, however, was not extended to other stockholders.

INCORPORATED FOR PROFIT

On January 17, 1929 an agreement was made between the Insull family and Insull Utility Investments of which the Insulls were officers. The agreement provided that the company would grant to the Insull family the right to buy 200,000 shares of its common stock at \$15 per share, during the next two years.

On December 28 the Insull family borrowed money from Corporation Securities Company to buy the I. U. I. stock. Two days later, according to the minutes of Corporation Securities, the Insulls had a meeting. They reported to themselves—as an executive committee—that they—as officers of the company—had bought from themselves—as individuals—enough of the I. U. I. stock to repay the loan. Price, \$40 per share. Having bought the stock two days before with borrowed money at only \$15 per share, the family had a net profit on the transaction of 125,000 shares of stock with a market value of \$7,500,000.

When this transaction was made public, Mr. Insull defended it by saying they sold the stock to Corporation Securities at a profit of 167% when the current market price entitled them to a profit of 267%

HOLDING COMPANY vs. INVESTORS

The declining market on Insull securities in 1931 put one of Martin Insull's private brokerage accounts in bad shape. He was warned by the broker on Saturday, October 3rd to deposit some non-Insull securities as collateral or the Insull securities already deposited as collateral would be sold out. Martin Insull, then President of Middle West Utilities, called to his office Oliver McCormick, Treasurer of the Company. "I've got a brokerage account that I've got to take care of," said Mr. Insull. After sending for a newspaper to get the day's markets, they found that the securities held by the broker amounted to \$344,720.

"Middle West has several million dollars of obligations to banks and brokers already," said Treasurer McCormick, "and I would like to keep as much as possible of our cash for these."

"Some of our subsidiaries have extra money," Mr. Insull replied. "Maybe a syndicate can be formed to help Middle West buy these securities." Mr. Insull then went to his brother, Samuel, with the matter. Samuel regretted that such action was necessary, but said, "Go ahead."

On Monday morning Mr. McCormick at Mr. Insull's request sent letters to ten companies *controlled by Middle West* telling them of the "opportunity to buy a block of Insull securities at the present unusually low prices." He asked them to send in their check at once. Within ten days checks ranging from \$10,000 to \$50,000 were received from the following:

Central and Southwest Utility
Central Illinois Public Service
Electric Management and
Engineering
Illinois Northern Utility
Kansas Electric Power

Kentucky Utility
L. E. Myers Company
Michigan Gas and Electric
Northwest Public Service
Northwest Utility Company

Their checks totaled \$283,500. The remainder of the \$344,720 account or \$61,220 was paid by the Middle West Utilities Company. On December 15 the block of stock had depreciated \$57,000 in market value. After April it was absolutely worthless.

In *PEOPLE OF ILLINOIS VS. MARTIN J. INSULL* the Defendant was charged with using his official position in these several companies to embezzle this \$344,720 of cash to pay his own personal debt with the stockbroker. Evidence was introduced showing that Mr. Insull's auditors laid before him financial statements showing that at the time Mr. Insull sold these stocks to his companies they had a speculative value, but no real value. The bulk of them were in Corporation Securities Co. which had become insolvent three weeks earlier.

Mr. Insull gave the Court three reasons for taking the \$344,720 of the stockholders' money:

"I did it to protect the stockholders. If this large block of Insull securities had been dumped on the market by the broker it would have lowered the market price on their holdings. I thought the market had reached the bottom and that the companies could sell the securities a little later at a substantial profit.

"I had the legal right to do it by virtue of the following section of the company's charter: *The corporation may purchase or acquire securities, obligations or property from any person or persons who may stand in a position toward this corporation of being promoters, officers or directors; and each stockholder of this corporation shall be deemed to have waived any objection to such acquisition, and to have agreed that no promoter, officer or director shall be liable to account for any profit derived by reason of such transactions.*"

Very few stockholders could have known about this broad grant of power. But the jury decreed that the \$344,000 deal was not embezzlement, that it was within the law.

HOW STOCK IS SOLD

In the federal suit in 1934 against Samuel Insull and fifteen business associates, they were charged with using the mails to defraud. Here are some of the facts presented by the government following its investigation of the Insull

companies on which more than a half dozen accountants worked for over a year.

At the time Corporation Securities Company was organized in 1929 the Insull family put in it 152,000 shares of Insull Utility Investments common stock with a market value of \$3,500,000, taking in return shares of the new company of equal value. Another 152,000 shares of I. U. I. were sold to the new company by Halsey, Stuart and Co., brokers for the Insull companies. The Insull family and its brokers received 2,000,000 shares of common stock in the new company free of charge. This was to be voted at all times as a unit as determined by three trustees—Samuel Insull, Harold Stuart, and Samuel Insull, Jr.

The government calculated the cost of these shares to the Insull family. The 152,000 shares of I. U. I. which the Insulls turned in had cost them \$150,747.30 or 99c. per share. They obtained from the new company a total of 1,045,436 shares of common stock for the \$150,747 investment, or a net cost of 13c. per share. The brokerage firm received its 1,000,000 shares free. Since the market price of this stock was \$27.50 per share *the organizers had obtained for \$150,747 stock for which the public would have had to pay \$56,249,000.*

On October 19th a circular was issued to the public announcing that Corporation Securities was organized, that "it would commence business with over \$30,000,000 in cash and over \$50,000,000 in marketable investments." In the Court's cross-examination, Mr. Insull admitted that this circular was approved by him even though the company had very little cash when it was issued.

"Why did you include in the \$50,000,000 of marketable investments shares of Middle West as costing \$15,000,000, when they had cost only \$3,500,000?" he was asked.

"I probably was wrong to the extent of about \$10,000,000," stated Mr. Insull.

When the prosecutor suggested that it might be a case of untruthfulness, Mr. Insull quickly replied, "You are getting me very earnest when you question my veracity, sir. I lived in an atmosphere of honesty in business."

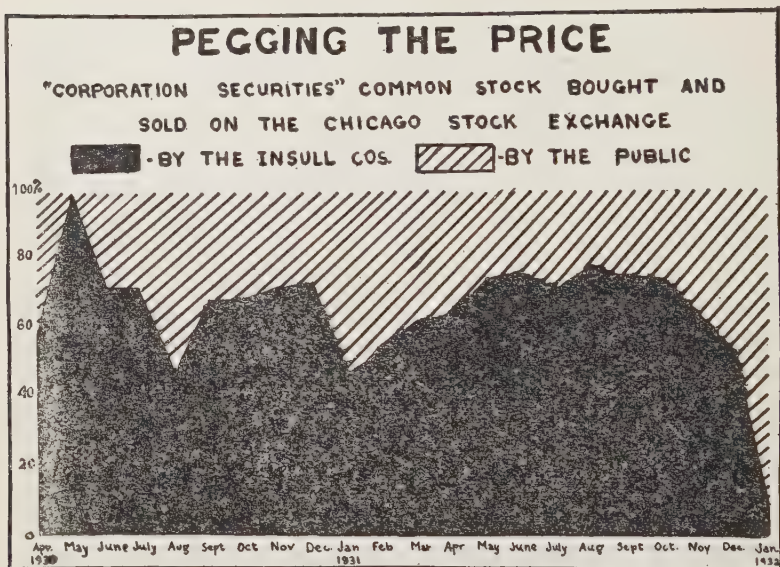
"In order to sell the stock, did you not conceal the fact that 94% of the assets were the securities of two holding companies?" (Both went into receivership thirty months later.)

"I could have sold this stock to the public," Mr. Insull replied, "if I had represented that 100% was in these companies, on the belief people had in my integrity and which they still have."

Two of the Directors of the new company felt differently about it, however. On August 21, 1929 Charles B. Stuart, a partner in the nation-wide brokerage firm of Halsey, Stuart and Company, wrote another partner, Frank K. Shrader, as follows: *"In my opinion, the minute we disclose the assets of the company, it will in great measure defeat the purpose of the whole thing."*

The Insull companies traded regularly in their own securities in order to maintain a 'satisfactory' market price. When 1,250,000 shares of Corporation Securities' stock was offered to the public in 1930 the company agreed to go on the market and buy back enough of the stock to keep the market price from dropping below \$27.00. This agreement was later endorsed by the Board of Directors. The accompanying graph shows how much support was necessary to maintain the price.

In this 1930 campaign the sales force was instructed to concentrate on small investors and working people. One firm printed 163,000 letters to mail to prospective buyers. Large newspaper advertisements were run describing the stock as "a permanent investment," and "one of the best buys on the market." Halsey, Stuart & Co., through its branch offices in all principal cities, referred to "the Jewels of the Insull Empire." It is only through our friendship with Samuel Insull, they said to their customers, that you are able to get in on the ground floor on this "opportunity to make plenty of money." Halsey, Stuart and Company received another \$525,000 worth of the stock as an extra bonus. Mr. Insull once said, *"I owe a great deal to the bond salesmen of this community. I have known times when they have taken my securities on faith."*



When the company made up its statement at the close of the first fiscal year, it showed a loss of \$174,000. A loss at this time would have interfered with paying dividends and selling more stock. Weeks were spent re-drafting the statement. The final draft showed a profit of \$630,000. The following figures show the wide difference between the reports of the company auditors and the government auditors for the years 1930 and 1931:

INCOME AS SHOWN		EXPENSE AS SHOWN	
<i>By company</i>	<i>By government</i>	<i>By company</i>	<i>By government</i>
'30: \$9,685,000	\$2,877,000	\$1,678,000	\$4,478,000
'31: 5,652,000	2,084,000	3,082,000	4,182,000

Cyrus S. Eaton of Cleveland, once held much of Corporation Securities stocks. In testifying at the trial in behalf of Mr. Insull he stated that he had investigated the company before taking its stock. He said he was not disturbed that the Corporation kept so much information from the public "as that was customary among large companies." Mr. Eaton, however, sold all his Insull securities early—at a profit.

THE SHIP GOES DOWN

The condition of Corporation Securities continued to get worse. On September 15, 1931, assets totalled \$52,415,000; liabilities were \$58,797,000. It was insolvent. But it was the period to take action on the quarterly dividend. On September 21 at the executive committee meeting attended by only Samuel Insull, Samuel Insull, Jr., and Martin Insull, it was decided to pay a dividend totalling \$558,000. Insull Utility Investments was to receive \$290,000 of the dividend, and Samuel Insull, \$31,539.

In order to pay the dividend it was necessary to borrow some money. That was easy. Insull Utility Investments loaned \$250,000 of the \$290,000 it was to receive in dividends. Mr. Insull was asked why he as chairman of one company loaned money to another company of which he was chairman and which was insolvent, to pay dividends, the most of which went to himself and his companies.

"Because the management believed," he replied, "that passing the dividend would cause the company several million dollars loss in further depreciation of market values and that declaring a dividend would serve the best interests of the investors."

The dividends were paid in November. In December when the corporation ceased to support the market its common stock dropped to \$1.50 per share. A receiver was appointed in April, 1932. On September 22, 1932 the federal court issued an order stating that "*there is no possibility that assets of sufficient character or amount as to bring stockholders any return whatsoever will ever be realized . . . and the company is hereby adjudged bankrupt.*"

The losses to investors totalled over \$100,000,000. This included \$23,000,000 of "Serial Gold Notes" which people bought as a "*safe and permanent investment.*"

Since the Insull family had invested considerable money in this company it is often said that "the Insulls went down with the ship." Mr. Insull has answered victims of the collapse by saying, "If anyone has lost more in the last few years than I have, I'd like to meet him."

Government auditors calculated that Samuel Insull and his son received from Corporation Securities as cash dividends and profits on sale of securities \$173,000 more than they ever invested in the company. They stated also that in the year preceding the collapse Samuel Insull bought \$12,000 of I. U. I. stock and sold \$12,228,002 worth.

The above facts and others were presented to the court in a trial which cost, according to the *Chicago Tribune*, \$150,000. Among those testifying at the trial to the integrity and high character of the defendants were the following persons: Sewell Avery, president of Montgomery, Ward and Company; Charles G. Dawes, former vice president of the United States and Ambassador to England; Archbishop Mundelein of the Roman Catholic Church; Joel T. Hunter, superintendent of United Charities of Chicago; Robert M. Hutchins, president of the University of Chicago; Silas Strawn, former president of the National Bar Association; George Craig Stewart, Bishop of the Episcopal Church.

The trial lasted weeks. But it took the jury only three hours to declare Mr. Insull and his associates innocent and the above transactions within the law. Harold Stuart, the broker, declared, "*This verdict reaffirms my faith in American institutions.*"

"LABORER WORTHY OF HIS HIRE"

What was the Insull policy concerning salaries? Martin Insull in 1931 was receiving \$65,000 as president of the Middle West Utilities Company. He received another \$35,000 from three subsidiary companies. It is said he did not get his salary raised to this amount until he threatened to leave for a new job on the Pacific Coast. He was not favorable to high wages however. A director of one of his companies quotes the following statement by Martin Insull, when it was proposed in a Directors' meeting to raise wages: "I am interested in profits, not in wages."

In the federal trial Samuel Insull was asked whether he received the following salaries in 1929, 1930, and 1931:

Commonwealth Edison Co. and subsidiary	\$150,000.00
People's Gas, Light and Coke Co. and subsidiary	100,000.00
Public Service of Northern Illinois and subsidiary	86,000.00
Middle West Utilities Co.	50,000.00
Midland Utility Co. and subsidiary	41,000.00
Chicago Rapid Transit Co.	25,000.00
Chicago, North Shore and Milwaukee R.R.	12,000.00
Chicago, Aurora and Elgin R.R. (1931)	49,000.00
Peabody Coal Company (1931)	48,000.00

"I received these salaries," he replied. "And I think that ordinarily the laborer is worthy of his hire." His other income in 1931 consisted of over \$200,000 dividends and over \$200,000 profits on the sale of stock. This made a total personal income in that year of approximately a million dollars.

The salary of Samuel Insull, Jr. in that year from some four companies was \$135,000. "In fixing salaries," he said, "the Boards considered that men at the head of a public business would make large contributions to civic, charitable and similar institutions *for the good of the business.*"

WINNING PUBLIC SUPPORT

In 1930, for example, Samuel Insull contributed 15% of his income to over a hundred organizations. Among these were schools, universities, music clubs, temperance societies, Presbyterian, Congregational and Catholic churches, patriotic societies, etc.

Funds from the company treasuries were also contributed 'for the good of the business.' Among those receiving contributions from Middle West Utilities in 1928-29 were: American Taxpayers League, American Library Association, American Farm Congress, American Constitution Association, Bible Rescue Mission, Chambers of Commerce, Chicago Church Federation, Harvard University, and Voters League.

A Senate investigation of the Illinois election of 1926 revealed that Samuel Insull had borrowed \$272,000 from his Commonwealth Edison Company to use in the political campaign. From this sum, \$125,000 was spent to help elect Frank L. Smith to the United States Senate. Another \$15,000 was contributed to Mr. Smith's Democratic opponent, George Brennan. A few years later approximately \$200,000 was spent by the Middle West Company in the attempt to win an election in the state of Maine. As goes Maine, so goes the nation!

On one or more occasions persons who were in a position to help the Insull companies were invited to participate in stock "deals" on which a profit of 25% to 50% was made on whatever each chose to invest. The following were among the two or three hundred persons on these "preferred lists";

Hugo Anderson, First National Bank, Chicago

Oscar Hewitt, Reporter, Chicago Tribune

E. J. Hughes, Secretary of State

Michael Igoe, Congressman from Illinois

Joseph B. McDonough, Traction Committee, Chicago
City Council

Patrick A. Nash, political boss in Chicago

Smith Trimble, Clerk of the House, Washington

Arthur Young, head of Chicago auditing firm

Owen D. Young, Chairman, General Electric Company

The most systematic work in the field of public relations was done by Public Information Committees. The first of these was launched in 1919 when Samuel Insull outlined the plan to his assistants and gave the order, "Get busy, and do something." Other utility companies soon united in this work, making it possible to conduct it on a nation-wide basis. Skilled publicity directors with liberal budgets were instructed to cover the whole range of American life from the primary child to the university professor, from the housewife to the law-maker. A senate investigation revealed that as early as 1921 the Illinois committee distributed 5,000,000 pieces of literature during the year.

In speaking before the public relations section of the National Electric Light Association, its director, M. H. Aylesworth said, "May I leave this thought with you executives. Don't be afraid of the expense. The public pays the expense."

In 1931 the Insull companies controlled the Chicago Evening Post and radio station WENR.

"The utility business is monopolistic in its character," Mr. Insull once said. *"No doubt the day is not far distant when the distribution of electricity will become a nation-wide hook-up."* He suggested these two methods for keeping the monopoly under private control:

"We must do our level best to maintain most cordial relations with the regulatory commissions. If public regulation fails the people will insist on public ownership. I don't think public ownership can succeed. It lacks the incentive that goes with the desire for personal achievement and wealth Our companies are great believers in customer ownership of stocks. We think that is the answer to the demand for municipal ownership If a consumer draws from us the wages of capital, he will feel like one of us and be just as anxious for the permanency of our organizations as we are It is not at all uncommon, out in the country districts, to have 90% of our employes stockholders. You can well understand what that means to us from the viewpoint of influencing public opinion"

Various schemes and contests were used to get employes and consumers to buy as much stock as possible. Speaking at a meeting of employes, Mr. Insull said,

"The first thing our employes should learn is how to save their money from month to month. You may have within you the latent power if properly developed to make a financier of you The trouble with the great masses of people is that their savings are not well invested I know of no better way to save money than to put it in local public utilities."

When the collapse came it swallowed up over \$3,000,000 of savings of employes of one company alone, Middle West Utilities.

Toward What End?

At the beginning of this story, we showed that our giant corporations cast their shadow across the lives of us all. To understand their inner workings we took as an illustration one supplying daily needs to a tenth of our people, the one whose books have been opened.

We saw how it grew from one small company to a network of some 300 companies, with assets equal to approximately 1% of the national wealth. We saw that the vast network was not controlled by the thousands who own it, who work for it, or who buy from it. It, like other large corporations, was controlled by a very few individuals within the inner circle.

We then asked how this vast power was used. We found that while much was commendable, those in control were led to do certain things which proved disastrous. These practices resulted not merely in financial losses totaling a half billion dollars and involving the livelihood of thousands. The moral standards of hundreds were severely upset.

What are we to learn from these facts? Can we lay our finger on the cause of the trouble? Can all be blamed on the Depression? What would have happened had there been no Depression? Did things such as these help cause the Depression? What about the statement by one of the Insulls that their mistake was in borrowing some money from the banks, which had to be repaid, instead of borrowing it all from the public through the sale of stock?

Are we then to blame the Insulls? Did Samuel Insull not grow up in a Christian home, become a Congregationalist, contribute liberally to the church? Was Samuel, Jr. not a member of the small Episcopal brotherhood of "Bishop's Associates"? Was there a day when they deliberately turned from honest business to dishonest business? Why did even disgruntled stockholders become Insull defenders once they knew them personally? Samuel Insull said, "Although my judgment was bad, I was not dishonest." A working woman who took care of his hotel room, said, "He is very good and kind. Each night I pray that he may not be harmed."

Were the Insull practices exceptional among large corporations? Can we think of other corporations which sold worthless stock, speculated with other people's money, allowed their officers to get too much power or too much money? Do we know much about the inside affairs of most corporations? Why did the courts refuse to punish these defendants? *"What have I done," Samuel Insull implored, "that every banker and business magnate has not done in the course of his business? . . . What we did was not an unusual course."*

What was Mr. Insull's object in enlarging the empire? What was his driving power? Was it the desire to extend to all the benefit of low-priced electricity? To make the investment of his security-holders safe and fruitful? To make money for himself and friends? To become a powerful figure in America?

In 1916, Samuel Insull said, "As I look back over my career at the things I would like to correct and the mistakes I would have preferred not to make, one mistake was that of looking too much to personal interest and not enough to community interest." Six years later he said, "I am engaged in the public utility business for a profit, but it affords me great satisfaction that in making a profit I can render a great service to the state." After another twelve years of work he said, "I am in the business of making money."

What groups if any profited by these corporation practices? Customers? Employes? Stockholders? Management? When Mr. Insull was told some of his companies would have to go into receivership, he stated the wish that he might then die. The collapse is credited with causing three suicides.

Must we continue to have such catastrophes? Should we all become bigger speculators and better losers? Shall these "mistakes" of free and powerful corporations continue to be within the law?

Suggestions for Further Reading

The Modern Corporation and Private Property, A. A. Berle and Gardiner C. Means. Macmillan, 1933, \$3.75.

"In time to come" says Charles A. Beard, "this volume may be proclaimed as the most important work bearing upon American statecraft between the publication of the immortal 'Federalist' and the opening of the year 1933."

The Public Pays, Ernest Gruening. Vanguard Press, 1931, \$2.50.

A summary of the findings of the Federal Trade Commission in its three year's investigation of the Power Trust. "At once a monumental piece of research and exciting literature."

Power Ethics, Jack Levin. Knopf, 1931, \$2.00.

The Power Fight, H. S. Rauschenbush. New Republic, 1932, \$1.00.

The Confessions of the Power Trust, Carl D. Thompson. Dutton, 1932, \$5.00.

Why We Are Interested in Electric Power, Clem O. Thompson. University of Chicago, 1934, 20c.

"The Insull Verdict," *Christian Century*, Dec. 5, 1934.

"From Insull to Injury," N. R. Danielian, *Atlantic Monthly*, April, 1933.

"An Empire in Hock," Daniel Dodge, *American Mercury*, Feb., 1935.

The story of the Van Sweringen railroads, another case of holding companies and pyramiding.

Important Announcements

The world again drifts rapidly toward war. There is crucial need for informed leadership to safeguard peace. The Council for Social Action has entered into cooperative relationship with the American Friends Service Committee to support nine Institutes of International Relations for the coming summer. These institutes, taught by outstanding authorities, have achieved conspicuous success in training community leaders. Those scheduled for this summer are:

New England: Wellesley College, Wellesley, Mass., June 25-July 5.

Middle West: Northwestern University, Evanston, Ill., June 24-July 5.

Grinnell College, Grinnell, Iowa, June 12-22.

The South: Atlanta, Georgia, June 10-19.

Duke University, Durham, N. C., June 10-21.

Pacific Coast: Mills College, Oakland, California, June 24-July 6.

Whittier College, Whittier, California, June 24-July 6.

Reed College, Portland, Oregon, July 5-15.

Institute on "American Labor and World Recovery": Haverford College, Haverford, Pa. Exact date in June to be announced.

For further information write:

Council for Social Action, 287 Fourth Ave., New York City, or *American Friends Service Committee*, 20 South 12th St., Philadelphia, Pa.

Send a delegate to your nearest institute.

UNITED STATES AND JAPAN: FRIENDS OR . . . ?

The Council for Social Action has prepared a mimeographed study outline on relations between the United States and Japan, suitable for post-Lenten classes and groups. The outline is based on the pamphlet "Conflicts of Policy in the Far East," by George H. Blakeslee. Copies of both pamphlet and study outline can be secured from the Council for Social Action for 10 cents.

JAN 2 - 1940